

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 426 - SB 1169

March 8, 2017

SUMMARY OF BILL: Exempts from the state and local sales and use tax the sale or use of continuous positive airway pressure therapy (CPAP) supplies for human use, including tubing and masks.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$1,275,000

Decrease Local Revenue – Net Impact – \$520,300

Assumptions:

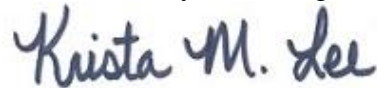
- The exact number of Tennesseans with a case of sleep apnea and the exact number of Tennesseans that use a CPAP machine are unknown.
- However, at least six percent of the total United States population is estimated to have a case of sleep apnea.
- According to the United States Bureau of the Census estimates, Tennessee's population as of July 1, 2016, is 6,651,194. It is therefore estimated that approximately 400,000 individuals in Tennessee have sleep apnea.
- It is assumed that ten percent of such individuals, or 40,000, use a CPAP machine and follow the recommended replacement frequency guidelines regarding CPAP supplies.
- The average cost of a CPAP mask is estimated to be \$99; the average cost of tubing is estimated to be \$25. The replacement frequency for both types of supplies is assumed to be every once every three months, for a total of four purchases of each item per year.
- It is assumed that all other CPAP supplies will continue to be subject to the state and local sales and use taxes.
- Total annual sales of CPAP masks and tubing are estimated to be \$19,840,000 $[(40,000 \times \$99 \times 4) + (40,000 \times \$25 \times 4)]$.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring decrease in state sales tax collections resulting from the tax exemption is estimated to be \$1,338,567 $[(\$19,840,000 \times 7.0\%) - (\$19,840,000 \times 7.0\% \times 3.617\%)]$.
- The recurring decrease in local sales tax collections resulting from the tax exemption is estimated to be \$546,233 $[(\$19,840,000 \times 2.5\%) + (\$19,840,000 \times 7.0\% \times 3.617\%)]$.

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- Fifty percent of tax savings, or \$942,400 $[(\$1,338,567 + \$546,233) \times 50.0\%]$, will be spent in the economy on other sales-taxable goods and services.
- The net recurring increase in state sales tax collections is estimated to be \$63,582 $[(\$942,400 \times 7.0\%) - (\$942,400 \times 7.0\% \times 3.617\%)]$.
- The total recurring increase in local sales tax collections is estimated to be \$25,946 $[(\$942,400 \times 2.5\%) + (\$942,400 \times 7.0\% \times 3.617\%)]$.
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$1,274,985 $(\$1,338,567 - \$63,582)$.
- The net recurring increase in local government revenue as a result of this bill is estimated to be \$520,287 $(\$546,233 - \$25,946)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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